

## Message Text

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ACTION NEA-10

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 7904

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SUBJECT: UPWARD TREND IN INDIA'S FOREIGN EXCHANGE RESERVES

REF: (A) NEW DELHI A-56 OF 3/4/76 (B) NEW DELHI 12093

SUMMARY: INDIA'S GROSS RESERVES, INCLUDING GOLD AND SDRS, REACHED ALMOST DOLS 2.7 BILLION AS OF END-JULY 1976, AN INCREASE OF 93.4 PERCENT OVER DECEMBER 1975 AND 121.4 PERCENT OVER JULY 1975. RESERVES NET OF IMF BORROWINGS WERE DOLS 1.9 BILLION IN JULY AGAINST DOLS .6 BILLION IN BOTH DECEMBER AND JULY 1975. FOREIGN EXCHANGE RESERVES GREW FROM DOTS .6 BILLION IN JULY 1975 TO DOLS .8 BILLION IN DECEMBER 1975 TO DOLS 2.2 BILLION IN JULY 1976. STRINGENT MEASURES AGAINST SMUGGLING AND ILLEGAL TRANSFER OF MONEY TO INDIA COUPLED WITH DEPRECIATION OF THE RUPEE, INCREASED AID FLOWS, AND AN IMPROVING TRADE BALANCES ARE ALL CITED AS REASONS FOR THIS LARGE INCREASE IN INDIA'S FOREIGN EXCHANGE RESERVES IN THE LAST 12 MONTHS. GOLD AND SDRS REMAINED VIRTUALLY UNCHANGED AT DOLS 500 MILLION. END SUMMARY.

1. INDIA'S GROSS RESERVES WERE DOLS 1.2 BILLION IN JULY 1975 WITH OUTSTANDING IMF BORROWINGS OF DOLS .6 BILLION GIVING A NET RESERVE POSITION OF DOLS .6 BILLION (SEE REF A). IN NOVEMBER GROSS RESERVES ROSE TO DOLS 1.6 BILLION THE HIGH FOR 1975, WITH IMF BORROWINGS NOW TOTALLING DOLS .8 BILLION.

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(INDIA MADE A SECOND DRAWING FROM THE IMF OIL FACILITY

FOLS 230 MILLION IN AUGUST 1975). FOREIGN EXCHANGE RESERVES WERE THEN A LITTLE MORE THAN DOLS 1 BILLION, UP BY 63 PERCENT OVER JULY 1975 FIGURE OF DOLS 640 MILLION. IN DECEMBER FOREIGN EXCHANGE RESERVES DECLINED TO DOLS 841 MILLION DUE TO NORMAL REPAYMENTS OF OUTSTANDING DEBTS. SINCE JANUARY 1976, FOREIGN EXCHANGE RESERVES ROSE AT AN AVERAGE RATE OF ABOUT DOLS 200 MILLION A MONTH REACHING DOLS 2,159 MILLION END-JULY, UP BY 157 PERCENT OVER DECEMBER 1975 AND BY 237 PERCENT OVER A YEAR AGO. HOLDINGS OF GOLD AND SDRS REMAINED VIRTUALLY UNCHANGED. GROSS RESERVES WERE DOLS 2,655 MILLION IN JULY 1976; DRAWINGS OF IMF CREDIT HAD FALLEN TO DOLS 730 MILLION DUE TO INDIA'S REPAYMENT IN APRIL 1976 OF ITS COMPENSATROY FINANCING FACILITY BORROWING OF DOLS 75 MILLION. NET RESERVES WERE DOLS 1,925 MILLION, UP 247 PERCENT OVER DECEMBER 1975 AND 217 PERCENT OVER JULY 1975. INDIAS RESERVES AS OF END-JULY, WERE EQUAL TO ABOUT 6 MONTHS OF IMPORTS.

2. EMERGENCY, DECLARED IN JUNE 1975, INCLUDED GOVERNMENT MEASURES AND EVENTUALLY STRINGENT LAWS TO CURTAIL SMUGGLING AND ILLEGAL TRANSFER OF MONEY BY INDIANS ABROAD. THE GOVERNMENT HAS SUCCEEDED IN ITS EFFORTS WITH THE RESULT BEING AN INCREASE IN THE AVERAGE MONTHLY INFLOW OF FOREIGN EXCHANGE FROM DOLS 52 MILLION IN CY 1974 TO DOLS 98 MILLION IN CY 1975. DURING THE FIRST SIX MONTHS OF CY 1976 THE MONTHLY AVERAGE ROSE TO DOLS 135 MILLION, WITH THE FIGURE FOR JUNE 1976 BEING DOLS 161 MILLION. IT SHOULD BE REMEMBERED THAT THIS INFLOW OF FOREIGN EXCHANGE INCLUDES NET TRADE PAYMENTS, NET AID, AS WELL AS ALL TYPES OF NET INVISIBLES. WHILE IT IS BELIEVED FOREIGN PRIVATE REMITTANCES HAVE PLAYED A BIG ROLE IN THE INCREASE, NO BREAKDOWN OF THE FIGURES IS AVAILABLE. IT HAS BEEN ESTIMATED THAT THERE ARE AT LEAST 20,000 INDIANS ABROAD, WITH A MINIMUM INCOME OF DOLS 1,000 PER MONTH. IT IS BELIEVE THAT IT IS THESE PEOPLE WHO ARE IN A POSITION TO EMIT THEIR SAVINGS TO INDIA THROUGH LEGAL CHANNELS. IT IS ALSO EXPECTED THAT FOREIGN PRIVATE REMITANCES WILL BECOME A REGULAR FEATURE OF INDIAN RESERVES AS MORE AND MORE INDIANS ARE BEING EMPLOYED IN THE MIDDLE EAST. THE RESERVE BANK OF INDIA (RBI) BELIEVES THE INFLOW OF FOREIGN EXCHANGE WILL CONTINUE BUT WILL STABILIZE AT THE CURRENT RATE.

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3. THE DEPRECIATION OF INDIAN RUPEE VIS-A-VIS US DOLLAR IS ANOTHER REASON FOR THE SHARP RISE IN FOREIGN REMITTANCES, WHICH ARE PART OF FOREIGN CURRENCY INFLOWS. THE CURRENT OFFICIAL PREVAILING RATE FOR THE DOLLAR IS ABOUT RS. 9 AS COMPARED TO RS. 7.50 IN 1973. THE DIFFERENCE BETWEEN THE OFFICIAL AND UNOFFICIAL RATE OF THE US DOLLAR IS NOW VERY SMALL AND THUS INDIANS APPEAR TO PREFER NOT TO TAKE THE RISK OF SENDING THEIR MONEY THROUGH ILLEGAL

CHANNELS.

4. THE FAVORABLE POSITION OF INDIAS RESERVES IS ALSO  
DUE IN PART TO THE CONTINUOUS TRADE SURPLUS BEGINNING  
IN FEBRUARY 1976. THE GOI HAS ALSO ANNOUNCED A NUMBER OF  
INCENTIVES FOR INDIANS LIVING ABROAD WHICH INCLUDE  
ALLOWING THEM TO HOLD EQUITY IN INDIAN COMPANIES AND  
ENCOURAGING THEM TO MAKE DEPOSITS IN FOREIGN CURRENCIES IN BANKS  
IN INDIA WITH THE ABILITY TO REPATRIATE THESE FUNDS WHEN  
DESIRED. THESE DEPOSITS CAN EARN TAX FREE INTEREST UPTO  
10 PERCENT PER YEAR, IF THE MONEY REMAIN IN INDIA FOR MORE THAN  
5 YEARS. HOWEVER, IT IS TOO EARLY TO ASSESS  
THE EFFECT OF THESE INCENTIVES.

5. SEPARATE MESSAGE FOLLOWS ON RECENT TRADE FLOWS.  
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## Message Attributes

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